

memo:

Date: May 24, 1993

To: Bob Clark, Scott Lewis, Van Short,
George Stojavljevic, Peter Lines
Sylvie Benéch, Frank Solbach

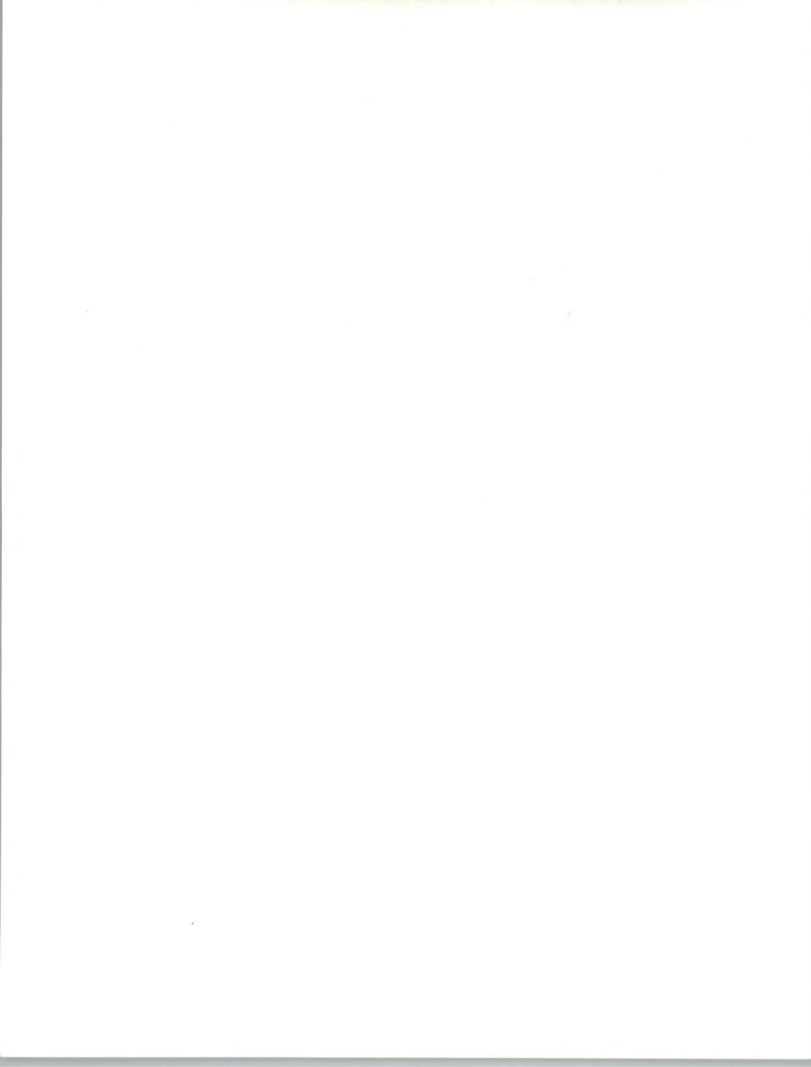
From: (Andrea for) Chris Smith

Subject: **Andersen Research Bulletin**

Attached please find MAP research bulletin IV-3.

This is a very good handout to take on sales calls. It is a good representation of our commercial research efforts. Please use it actively in your sales presentations.

INPUT



sector, then one of these companies is likely to claim that title. On the other hand, it is possible that domination is beyond the reach of any single firm, and market share will continue to be apportioned among several leaders who will compete vigorously with one another throughout the decade.

The Future for Andersen

Andersen's timing for holding this initial analysts' briefing was propitious. Revenues are climbing, and although Andersen does not reveal profit numbers, the partners, all 800 of them, seem to be collectively smiling. Andersen's new strategy focuses on its current strengths, and applies them to new growth opportunities in a logical and leveraged way. Clearly, its international distribution of talent will serve Andersen well in a global economy.

What could disrupt Andersen's plans for market leadership? Only the fact that IBM, EDS, CSC, Digital and other smaller, but capable players, are taking dead aim at the same markets. It really becomes a question of implementation skills, of which Andersen has an abundance.

A large number of solid providers have converged on the information services market armed with cash, skilled staff, proven methodologies, sophisticated products, and high resolve. Intense competition will become the rule. If that is not good news for vendors, it certainly is for buyers.

A Publication from INPUT's U.S. Information Services Market Analysis Program

Andersen Consulting Outlines Business Integration Strategy

This research bulletin, published as a part of INPUT's Market Analysis Program, relates the thrust of a recent analyst's briefing held by Andersen Consulting, its first ever such event. The bulletin, which describes the key strategies and service lines outlined by Andersen at the conference, compares Andersen's market position to those of its major competitors, and presents INPUT's conclusions on Andersen's future prospects. For further information, call Paul Kendrick at INPUT, (415) 961-3300.

Andersen Consulting recently hosted its first analysts/media seminar at its sprawling education center in St. Charles, IL. In unveiling its strategy for business integration, and presenting considerable information about its operations, Andersen overcame some historical reticence inside the firm about such broad disclosures, and impressed the audience with its scope of current activities and plans for future growth.

First impressions can be confusing: is this one of the world's larger hotels (1,700 rooms), or a university filled with earnest, youthful, well-dressed graduate students? In fact, the ambiance at St. Charles does remind the visitor of both. By conducting this briefing at the nerve center for corporate education, Andersen reinforced the substantial commitment (\$7,000 per professional each year) they are making to support its ambitious plans for growth and increased share of new markets.

Shaheen Spells Out Business Integration Vision

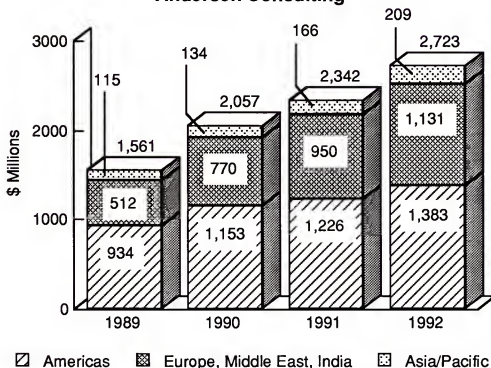
George T. Shaheen, Andersen's Managing Partner, welcomed the group, and outlined the firm's current financial position and strategic direction. Among the key results noted by Shaheen were:

- Sixteen percent growth in worldwide revenues in 1992, to \$2.7 billion.
- Fifty-four percent of revenues came from outside the U.S., and growth rates were significantly higher overseas (see Exhibit 1).
- Andersen now employs 26,700 staff worldwide, including 803 partners.
- Revenues are segmented into six major industry groups, with the bulk of business currently generated by products and financial services (see Exhibit 2)

Shaheen stressed Andersen's determination to "remain relevant to our markets." Although this may sound basic, in an era of rapid paradigm shifts, it's critical to keep a sharp focus on market and technology changes. Shaheen alluded to a "changing of the guard" within the information services industry, where the well-documented problems of IBM and Digital

Exhibit 1

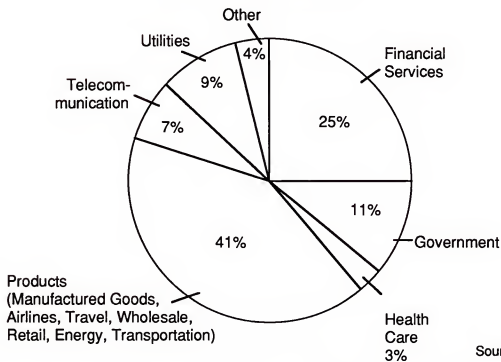
Worldwide Net Revenues Andersen Consulting



Source: INPUT

Exhibit 2

Revenues by Industry Group Andersen Consulting



Source: INPUT

Shaheen identifies systems integration as Andersen's core competency, one that is further leveraged by the firm's ability to rapidly assemble multilingual and multidisciplinary teams on short notice to address customers' global requirements. One of the noteworthy sights at St. Charles is the high percentage of non-U.S. employees on site for training. If overseas growth in information services continues to exceed U.S. figures (an INPUT conclusion), then Andersen has made a good strategic move in building a strong international staff, deployed in key business centers throughout the world.

Client Server Computing Focus

Like nearly all vendors of equipment, software and services, Andersen is experiencing a dramatic growth in client-server engagements. In 1991, about \$300 million of Andersen's revenues were related to client/server work. In 1992, that figure was \$1 billion. In 1993, Andersen estimates that \$1.9 billion will be attributed to work in this segment. Clearly, the client/server revolution is well underway.

Capital Not An Issue Today

Shaheen rejected the frequently heard concern that Andersen will be capital limited because their private, partnership structure will keep them from raising money in the financial markets. This has not been a barrier, said Shaheen, who pointed to the rapid increase in Andersen staff and its major build up in training as examples of aggressive investment. It will probably take the demands of a major acquisition to test the financial limits of Andersen's growth.

Market Leaders Already in Place

In looking at the information services markets measured by INPUT, Andersen is already near the top rung of the ladder. When INPUT combines revenues from the systems integration, systems operations and professional services delivery modes, then IBM-ISSC, Andersen, EDS, Digital Equipment, and CSC emerge as clear leaders, with a significant separation from the rest of the field (see Exhibit 4). If the computer industry leader during the next decade comes from the services

Exhibit 4

Leading IT Services Firms 1992 Worldwide Revenues (\$ Millions)*

Vendor	Professional IT Services	Systems Integration	Systems Operations (Outsourcing)	Total Revenue
IBM-ISSC	1,415	3,900 **	550	5,865
EDS	685	1,115	1,700	3,500
Andersen Consulting	750	1,820	150	2,720
Digital	545	1,630 **	325	2,500
CSC	750	585	860	2,195

* INPUT estimates

** Includes equipment

Source: INPUT

Equipment, plus the ascendancy of Intel and Microsoft in the products arena, open the way for a new industry leader to emerge (possibly from the services sector). Andersen believes that it can be that leader, based on its current position, available resources, and a set of services assembled under the umbrella of "business integration."

Business Integration Defined

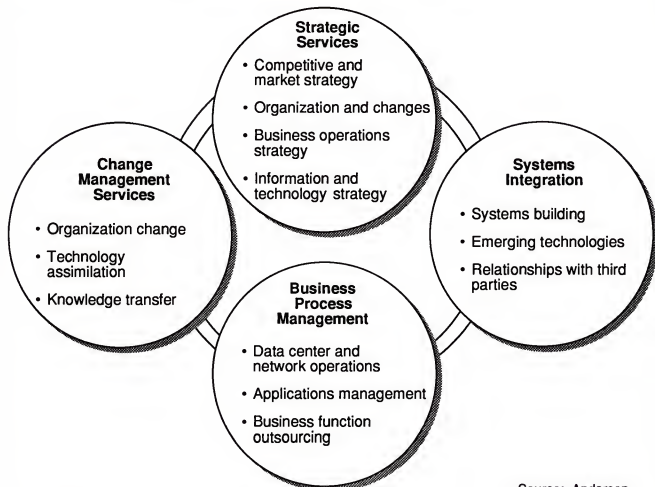
Andersen Consulting has defined its mission as helping its clients change to be more successful. Andersen Consulting believes the key to helping its clients is its business integration approach, or "aligning an enterprise's people, processes, technology and strategy to improve business performance."

What this means is that Andersen Consulting believes client needs cannot be looked at narrowly but in the context of how they relate to all the critical components of a business. To accomplish this goal, Andersen identifies four specific groups of services through which it can deliver a broad range of benefits to clients. (See Exhibit 3).

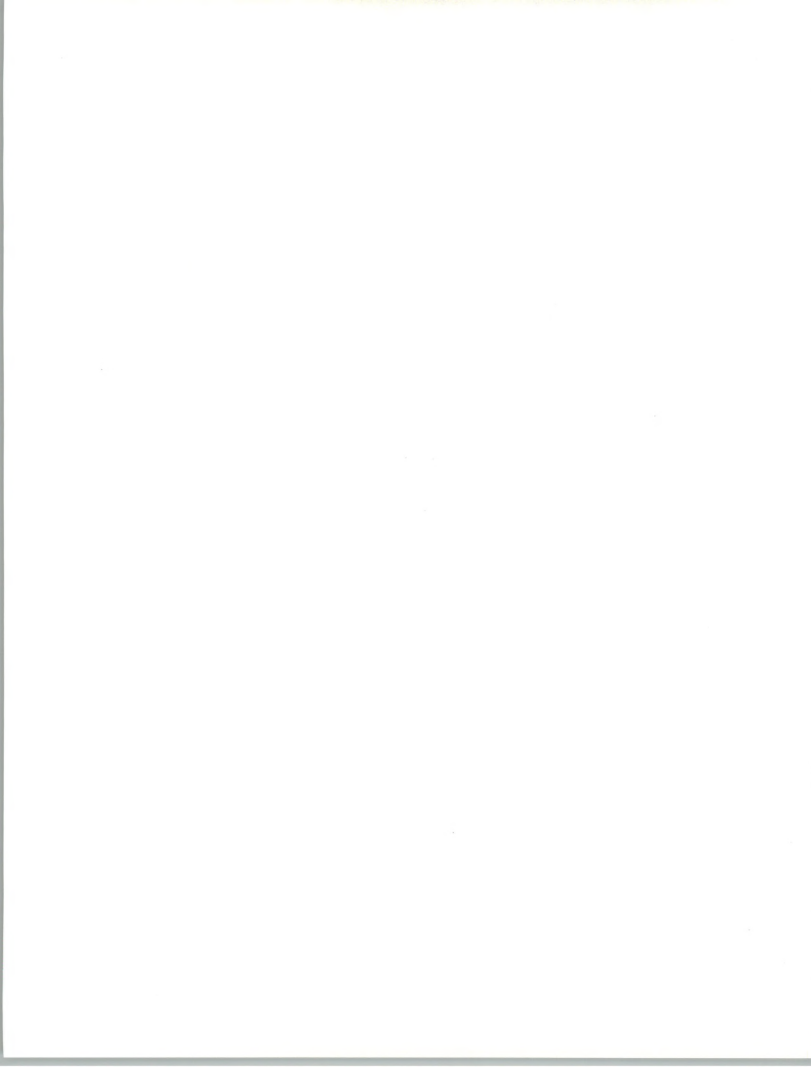
While any of these four service lines may be provided on a standalone basis, Andersen is clearly banking on its ability to sell them in combinations, as a single source for a broad range of customer needs. Shaheen feels that this particular breadth of service is what can distinguish Andersen from a host of strong competitors.

Exhibit 3

Andersen Consulting Service Lines



Source: Andersen



Strategic Services

A key ingredient of the Andersen plan is aggressive expansion in the high-level strategic consulting business by adding senior staff through recruiting, and acquisition when appropriate, to its base of 600 consultants targeting this service sector. According to Rudy Puryear, Managing Partner for Information and Technology Strategy, "Andersen is finding that more and more client problems are of a broad nature, having some relation between strategy, technology, people, and processes—which, of course, we define as business integration. If we want to define the business integration marketplace we have to have strong capabilities to match those four key facets of the client's business. Therefore, that's what's driving the need to be much larger—to have the sufficient expertise to go after the business integration opportunities." The rewards for successfully leveraging strategic services engagements into Andersen's strong market position in systems integration are obvious and lucrative.

Change Management

Based on results already delivered from key accounts, Andersen is quite optimistic about the opportunities in change management. There is a pent-up demand in U.S. business for methods that will introduce change (with minimal pain) to workers who instinctively resist leaving their own personal comfort zones. Andersen has built a staff of 1,200 to implement such processes, and projects 40% annual growth in its change management services during the next few years.

The Andersen partners and their customers who presented case studies in the seminar identified benefits of mind-boggling proportions. As U.S. businesses focus on re-engineering of critical functions, the change management expertise of Andersen and other major players will be critical in supporting that effort.

Business Process Management

Andersen has yet to become a leading player in the \$16 billion systems operations

(outsourcing) market. INPUT estimates that this sector will grow at a healthy 18% over the next five years. By building a cadre of 600 professionals dedicated to this service line, Andersen is positioned to increase its market share and take advantage of outsourcing opportunities whether stand-alone, or driven by synergistic requirements from its other three service lines.

Andersen is likely to de-emphasize the more traditional data center outsourcing services, and focus on opportunities more closely aligned with its strengths in applications software development and maintenance.

Andersen is also concentrating on the "transitional outsourcing" opportunities which are created when clients need assistance in migrating from today's large mainframe systems, in route to lower cost, high efficiency client/server configurations. With a flood of such projects underway, and more to come, this can be an attractive niche.

Finally, Andersen, EDS and other vendors, are greatly interested in the relatively new concept of taking on an entire business process for a client. The most visible Andersen deal in this category is the recent agreement with BP Exploration, to assume all functions of their accounting operation. Where a vendor can break through the limitations of computer-oriented assignments, and take on whole enterprise functions instead, the stakes, and the rewards can be that much greater.

Systems Integration

Today, roughly 70% of Andersen's revenue comes from this activity. When systems integration and professional services segments are combined, this is an \$85 billion market in 1992, which will grow at a 12% compound annual growth rate during the next 5 years. Andersen is one of five market leaders, and is well-positioned to continue growing in this discipline.

